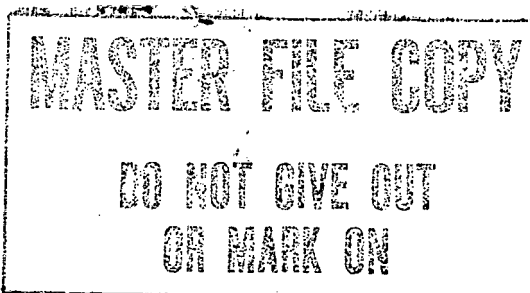


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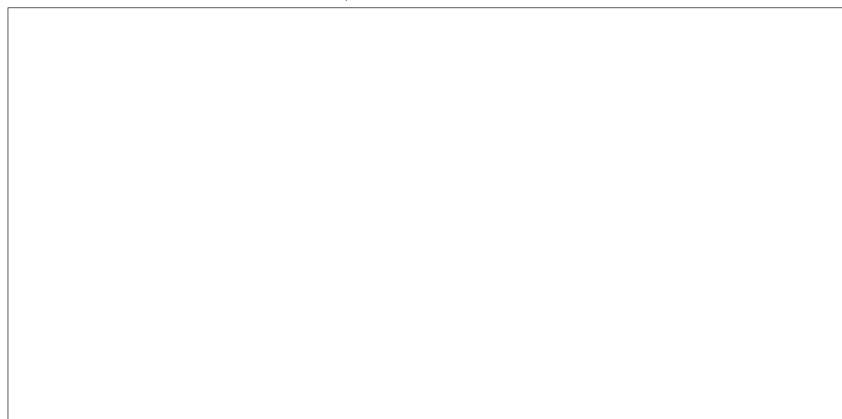
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# Soviet Economic Assistance to the Communist LDCs: Revised Estimates

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A Technical Intelligence Report



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# **Soviet Economic Assistance to the Communist LDCs: Revised Estimates**

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**A Technical Intelligence Report**

This paper was prepared by [ ] the  
Office of Soviet Analysis. Comments and questions  
are welcome and may be directed to the Chief,  
Economic Performance Division, SOVA, [ ]  
[ ]

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**Soviet Economic Assistance  
to the Communist LDCs:  
Revised Estimates**

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**Summary**

*Information available  
as of 6 February 1989  
was used in this report.*

The drop in world oil prices, the sudden depreciation of the US dollar, and increased availability of Soviet data have led us to revise our estimates of Soviet economic assistance to the Communist less developed countries (CLDCs). The main adjustment has been to account for the oil price subsidies that have worked in Moscow's favor since 1985. The sudden depreciation of the US dollar, in turn, highlighted the fact that measuring assistance in rubles provides a much more realistic picture of the real flow of Soviet economic assistance to the CLDCs.

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Our revised estimates show that Soviet assistance declined from a peak of 5.8 billion rubles in 1985 to 4.3 billion rubles in 1987, or by almost 25 percent. Because of the sharp appreciation of the ruble against the dollar, our revised dollar measurement of assistance fell only marginally from \$7 billion in 1985 to \$6.8 billion in 1987:

- All of the decline came in the form of reduced price subsidies, mostly because the CLDCs have paid above-world-market prices for Soviet oil since 1985. (Moscow's willingness to accept goods in exchange for oil and to extend trade credits presents the CLDCs with a more attractive arrangement than turning to hard currency markets for energy.) Direct economic aid continued to rise slowly during the mid-1980s, although growth virtually ceased after 1986.
- Cuba, which received about 60 percent of the CLDC assistance in 1987, absorbed virtually all of the decline. Vietnam and Mongolia account for almost all of the remaining assistance.

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Despite Moscow's rhetoric about the excessive cost of supporting Communist client states, it has yet to cut the volume of deliveries of key products, including oil. The Soviets have provided this assistance to the CLDCs largely in return for political benefits such as support for Soviet positions in the international arena and military access to port and air facilities. The high cost of the program, however, coupled with a growing Soviet disenchantment over meager economic returns—for both the USSR and the CLDCs—is fueling renewed Soviet interest in constraining and preferably cutting the levels of support to Third World clients. Moscow is specifically pressing CLDCs to restructure their economies and find alternative sources of support

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**Scope Note**

This paper presents revised ruble and dollar estimates of Soviet economic assistance to the Communist less developed countries (CLDCs)—Cuba, Vietnam, Mongolia, North Korea, Cambodia, and Laos. These estimates include *net economic aid*, the sum of any trade deficit with the USSR and estimates of outright grants and technical services Moscow provides, and *price subsidies*, the difference between world market prices and Soviet-CLDC transaction prices for key commodities such as Soviet oil and Cuban sugar. This definition of economic assistance differs from the traditional Western OECD definition because of the unique economic relationship Moscow has with the CLDCs. The revisions will be used as important contributions to analysis of Soviet policy toward the CLDCs, including projects that assess Moscow's "cost of empire" and the USSR's relationship with Cuba.

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## Soviet Economic Assistance to the Communist LDCs: Revised Estimates

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### Background

To support its foreign policy objectives, Moscow incurs the burden of providing the Communist less developed countries (CLDCs) with vast amounts of economic assistance.<sup>1</sup> In return, the Soviets have received substantial "noneconomic" benefits, especially from Cuba and Vietnam, the USSR's two closest allies in the Third World. Cuba remains the USSR's most important asset in the Western Hemisphere, while both the Cubans and Vietnamese provide the Soviet military with port and air facilities. Politically, the CLDCs continue to support Moscow in the UN and other international organizations. Cuba's President Castro, in particular, has been aggressive in promoting the Soviet Union's political position on various international issues and in defending it in the Nonaligned Movement.

Soviet aid to these countries has benefited Moscow economically to a much lesser extent. Although Moscow obtains foodstuffs, raw materials, and other commodities in return for its economic support—some of which is geared to facilitate the production of goods needed by the USSR's economy—the CLDCs have perennially failed to meet their export commitments to Moscow. Faced with such poor repayment prospects, Moscow has been forced to allow many of its CLDCs' debts to be deferred.

Numerous signs have surfaced since the early 1980s that Moscow is becoming increasingly dissatisfied with these small economic returns on its assistance to the CLDCs as well as with gross misuse of its aid by them. For example, at the November 1984 heads of government meeting of the Council for Mutual Economic Assistance (CEMA), Moscow publicly insisted

that Cuba begin meeting its trade obligations and that Vietnam increase those exports that better take into account the needs of the Soviet economy. Moscow's concerns over the costs of supporting its Third World clients in general appeared to grow in the latter half of the decade in the wake of its increasing domestic economic travails and tightening financial constraints. The Soviets' recently released economic plan for 1989, for example, suggests that low repayments by client states have adversely affected Moscow's financial position.

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### Measuring Assistance

Our estimates of Soviet economic assistance to the CLDCs attempt to measure the net transfer of economic resources from the USSR to this group of countries. They include direct *economic aid* on a net basis and the indirect effect of *price subsidies* on Soviet imports and exports. Soviet official trade data converted to US dollars at the official dollar/ruble exchange rate set by Gosbank, the Soviet State Bank, and world commodity prices provide the bulk of the data for calculating assistance figures for all the CLDCs except Cuba. Some Cuban data—converted to US dollars at the official dollar/peso exchange rate set in Havana—are used to fill in some of the gaps in Soviet trade figures.

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*Net economic aid* is defined as the sum of any reported trade deficit with the USSR and CIA estimates of Soviet outright grants and technical services. One portion of the trade deficit, in turn, is viewed as "economic development assistance." For the most part, it consists of Soviet machinery and equipment for projects such as the nuclear power plant in Cuba and offshore oil development in Vietnam. The remainder of the trade deficit is assumed to be financed by long-term trade credits.

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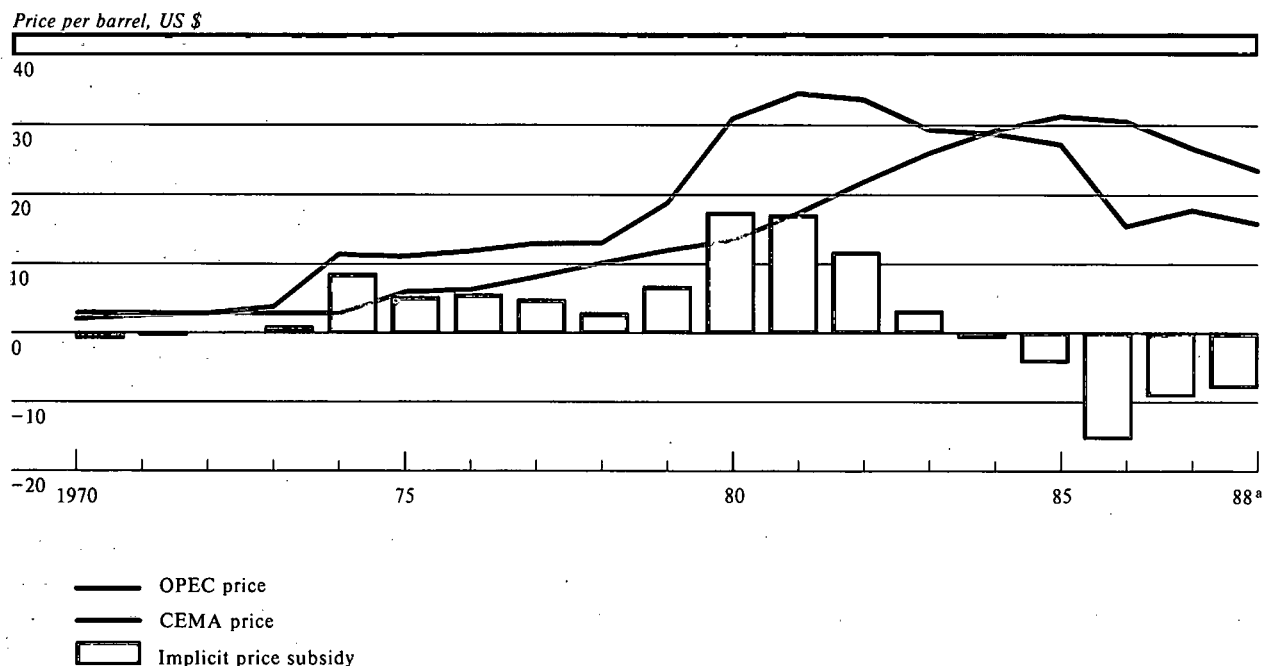
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**Figure 1**  
**Crude Oil Prices for Communist LDCs, 1970-88**



<sup>a</sup> Preliminary.

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The Soviets occasionally provide small amounts of grant aid, which is not included in their trade statistics, and technical services. The latter consists mostly of services performed by engineers working on Soviet construction projects and those provided by other professionals such as teachers and consultants. Technical services also include the training of CLDC personnel in the USSR.

*Price subsidies* are defined as the difference between world market prices and Soviet-CLDC transaction prices for items traded, most notably Soviet oil and Cuban sugar and nickel:

- The petroleum subsidy reflects the difference between the value of petroleum purchased from the USSR and the value these imports would command

in the world oil market. Moscow charges the CLDCs the oil price set by CEMA. This price is based on the average of world oil prices for the preceding five years. This pricing scheme, which was instituted in the early 1970s, provided the CLDCs with low-cost oil during the period when world oil prices were rising (see figure 1).

- The Cuban sugar and nickel subsidies are estimated as the difference between the price Moscow pays Havana for these commodities and their world market value: in recent years the Soviets have been paying about eight times the world price for sugar and two times the world price for nickel.

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**Alternative Measures of Soviet Economic Assistance  
to the Communist LDCs, 1980-87<sup>a</sup>**

	1980	1981	1982	1983	1984	1985	1986	1987
<b>Old estimates (billion US dollars)</b>								
Gross economic assistance	5.6	6.8	6.9	6.4	6.7	7.2	8.7	9.2
Economic aid	2.4	3.2	3.1	3.2	3.0	3.5	4.7	4.7
Price subsidies	3.2	3.6	3.8	3.2	3.7	3.7	4.0	4.5
<b>New Estimates: Accounting for Net Price Subsidies (billion US dollars)</b>								
Net economic assistance <sup>b</sup>	5.2	6.4	6.9	7.1	7.1	7.0	6.1	6.8
Economic aid	2.3	3.1	3.0	3.7	3.2	3.4	4.6	4.9
Price subsidies	2.9	3.2	3.9	3.3	3.9	3.6	1.5	1.9
<b>New Estimates: Accounting for Net Price Subsidies (billion rubles)</b>								
Net economic assistance	3.4	4.6	5.1	5.2	5.8	5.8	4.3	4.3
Economic aid	1.5	2.3	2.2	2.8	2.6	2.8	3.2	3.1
Price subsidies	1.9	2.3	2.9	2.4	3.2	3.0	1.1	1.2

<sup>a</sup> Because of rounding, components may not add to the total shown.<sup>b</sup> Net economic assistance is gross economic assistance minus price subsidies flowing from the CLDCs to the USSR.

- We believe that Moscow also pays the CLDCs above-world-market prices for some other goods such as Cuban citrus. These subsidies are derived from sketchy and incomplete reporting and are estimated at less than \$50 million annually.

**Revising the Estimates**

Historically, our estimates of economic assistance have provided a reasonably good picture of the Soviet-CLDC aid relationship.<sup>2</sup> In recent years, however, the collapse in world oil prices, the sharp depreciation of the US dollar, and more detailed Soviet trade data have revealed some shortcomings in these aid figures. In particular, our economic assistance estimates to date have employed price subsidies figured on a gross

basis, accounting only for those major subsidies that worked to the CLDCs' favor. But the fall in world oil prices beginning in 1982 caused the CEMA oil price to exceed world price levels during the period 1985-87: in effect, the CLDCs began providing an oil price subsidy to the USSR that was not captured in our estimates.<sup>3</sup> Past practices, which disregarded price subsidies that benefited Moscow, inflated our recent estimates of the Soviet burden. Using gross price subsidies, we had estimated that Moscow's total economic assistance rose from \$6.4 billion in 1983 to \$9.2 billion in 1987. Taking into account the above-world-market oil prices Moscow charged the CLDCs, the assistance figure for 1987 would be more on the order of \$6.8 billion (see the table).

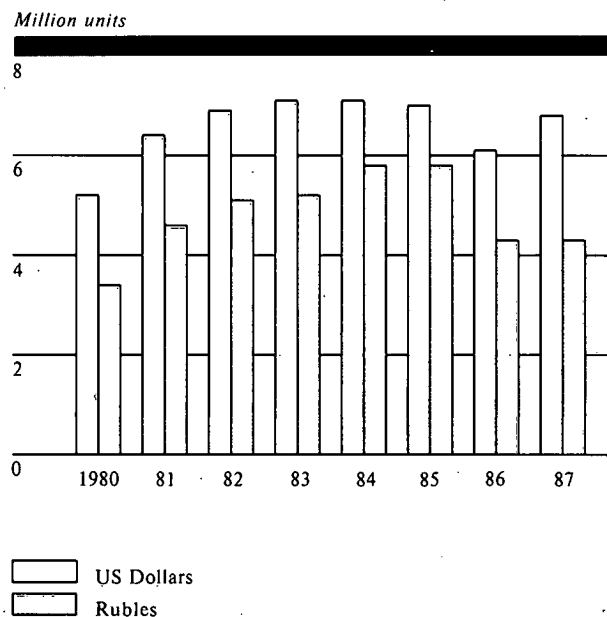
<sup>3</sup> Remarks by a senior Cuban official as early as 1983 suggest that Havana was aware that Soviet oil price subsidies might disappear and that Cuba might end up paying above-world-market prices for Soviet oil.

The traditional approach of presenting the estimates in US dollars is another area for concern, given the fluctuations in the dollar/ruble exchange rate. Because available evidence indicates Soviet trade with and aid to the CLDCs is transacted in rubles—at prices fixed mostly without regard to the dollar/ruble exchange rate—US dollar estimates of assistance will overstate real trade flows when the dollar is falling against the ruble and understate flows when it is appreciating. The impact of exchange rate fluctuations on our assistance calculations has been of particular concern recently, given the 30-percent appreciation of the ruble vis-a-vis the dollar during the past two years (see figure 2). Ruble estimates therefore provide a more accurate indication of year-to-year changes in the contribution of Soviet assistance to the CLDCs. [ ]

Measuring such assistance in dollar terms, however, does have the apparent advantage of providing a rough approximation of the hard currency earnings that Moscow forgoes by trading with the CLDCs rather than with the West. Even here Soviet earnings tend to be overstated, however, because such exports as machinery and equipment undoubtedly would fetch less on Western markets than implied by officially set prices converted at the official exchange rates. Dollar measurements also can distort assessments of Moscow's overall hard currency requirements (see inset). [ ]

A final justification for revising our estimates is the recent availability of more detailed Soviet trade data. The Soviets now provide both quantity and value data for most commodities traded since 1986. The unit values derived from this data suggest that the use of annual average world spot prices in valuing a number of goods traded, such as Soviet oil and Cuban sugar, may not accurately reflect Soviet opportunity costs and therefore the burden to Moscow. For example, because only about 5 to 10 percent of Soviet oil exports to the West are priced on a spot basis, we believe oil prices calculated from the trade data—which take into account both spot and term sales—provide a better indicator of the market value of Soviet oil. Similarly, Moscow's non-Cuban sugar purchases have typically been at prices higher than the spot sugar price, indicating that we have overstated the value of the sugar subsidies. [ ]

**Figure 2**  
**USSR: Net Economic Assistance to the Communist LDCs, Dollar vs Ruble Estimates, 1980-87**



To better capture the net flow of real resources from Moscow to the CLDCs, we will present estimates of assistance in both rubles and dollars:

- Ruble and dollar estimates will be made on a completely *net* basis, taking into account all major subsidies implicit in oil and raw material prices in transactions between Moscow and the CLDCs. Adjustments are made to our estimates of price subsidies to account for changes in world market prices and in Soviet pricing formulas. Even then, however, our estimates must be viewed as approximations because lack of complete price data prevents reliable calculations of possible subsidies on other traded goods.<sup>4</sup>

<sup>4</sup> For example, research by some Western analysts indicates that the prices of machinery and manufactured goods sold by Eastern Europe to the USSR are relatively high compared with world market prices for comparable equipment. [ ]

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**Soviet Hard Currency Support to CLDCs**

*Estimates of dollar aid to the CLDCs are often equated with actual hard currency flows and thus enter policy debates over Western financial support to the USSR, especially the concern over untied lending by Western banks. In reality, however, the burden of most of the Soviets' economic support is in the form of their own products, especially energy, that are provided to client states, either with overly attractive financing terms or free of charge.* [ ]

*There is an element of a hard currency "opportunity cost" with such policies, but Moscow goes to great lengths to reduce actual hard currency outlays. For example, Soviet oil deliveries to these states—in exchange for goods or very little payment, given Moscow's continuing trade surpluses—could bring some \$2 billion in hard currency annually if sold on the world market at today's depressed prices. In fact, some of the oil earmarked for Cuba is never delivered but instead sold, with the hard currency proceeds benefiting Havana. When oil prices were high, Cuba was able to earn as much as \$600 million annually, but revenues from oil resales have dropped in recent years to about \$200-300 million. Assessing the opportunity cost of all such transactions with the CLDCs is difficult. Moreover, there is a reverse flow to consider because these countries also export to the USSR some raw materials and agricultural products that Moscow would have to pay for in hard currency if purchased elsewhere.* [ ]

*Actual Soviet out-of-pocket hard currency outlays for the CLDCs are small. The Soviets purchase about \$150-250 million worth of wheat from Canada each year on behalf of Cuba, buy some sugar outside the trade protocol for hard currency, and, on occasion, supply Havana with small hard currency loans. On a much smaller scale, Moscow also assumes payment responsibility for some of Vietnam's hard currency purchases, most notably grain. In total, we estimate that the Soviets typically spend annually about \$300 million in hard currency to support the CLDCs. Their annual hard currency inflows from all sources, by contrast, have averaged about \$33 billion in recent years.* [ ]

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- The number of exchange rate conversions will be minimized to help reduce some of the distortion caused by using US dollar valuation of resource flows made in nonconvertible currencies. For example, the problems associated with fluctuating exchange rates are lessened by replacing the world spot prices for oil and sugar, which are expressed in US dollars, with the average ruble price that Moscow actually uses to transact similar deals with other countries.<sup>5</sup> The replacement of world spot prices with those derived from Soviet trade data will also provide a closer approximation of Moscow's true opportunity costs in trading with the CLDCs.

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**Implications**

The revised estimates show that the level of total economic assistance to the CLDCs was 4.3 billion rubles in 1987, a decline of about 25 percent from 1985 (see figure 3). (In contrast, the estimate presented in dollars would show assistance decreasing by only 3 percent during this period.) In 1987 this level of assistance to CLDCs equaled about 1 percent of Soviet GNP:

- All of the decline came in the form of reduced price subsidies, which have fallen about 2 billion rubles since 1985.
- Moscow made the reduction in price subsidies somewhat less painful, however, through a combination of increased development aid and additional trade credits: indeed, its trade surplus with the CLDCs has grown by almost 30 percent since 1985.<sup>6</sup> [ ]

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<sup>5</sup> The average price Moscow obtains for its oil on world markets is available for 1986-87 and is derived from official Soviet trade statistics. The average price Moscow has paid for its non-Cuban sugar for at least the last 15 years can also be derived from Soviet trade statistics. [ ]

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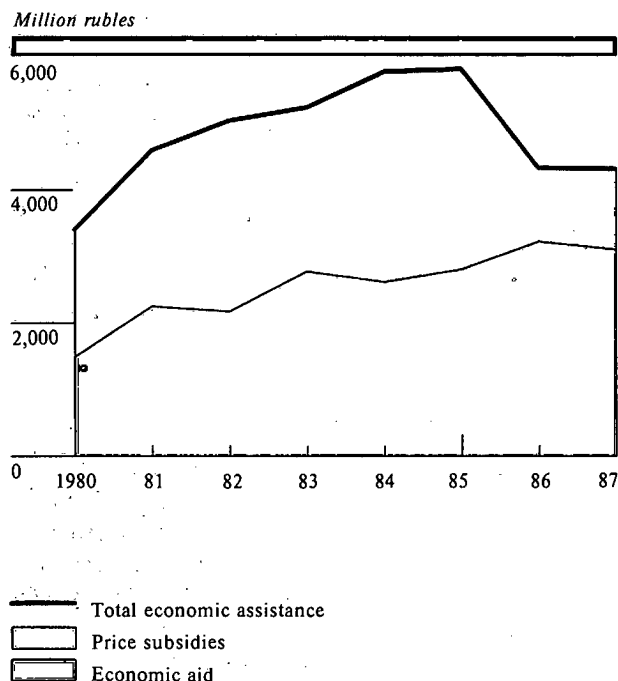
<sup>6</sup> The increase in development aid—whether measured in rubles or dollars—between 1984 and 1987 suggests that real flows of Soviet material to CLDC economic projects were on the rise during this period. [ ]

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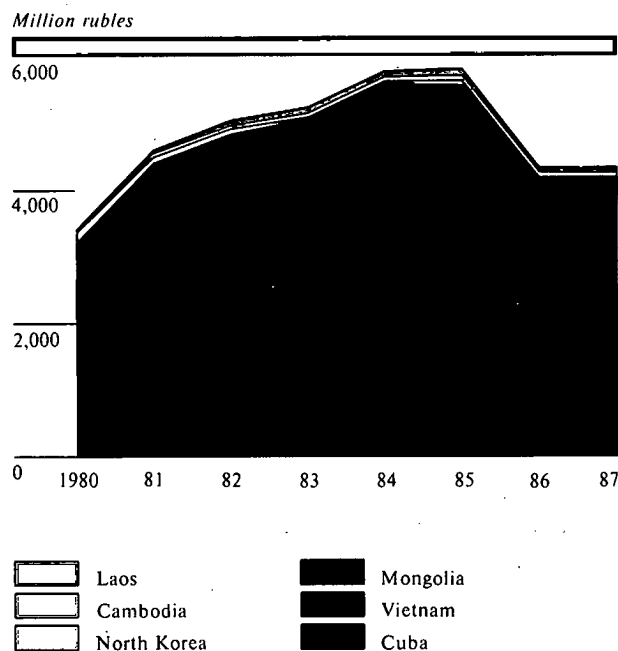
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**Figure 3**  
**USSR: Net Economic Assistance to the Communist LDCs by Source, 1980-87**



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**Figure 4**  
**USSR: Net Economic Assistance to the Communist LDCs by Country, 1980-87**



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The drop in economic assistance to individual CLDCs was the most pronounced in Cuba, with assistance falling almost 40 percent in ruble terms during 1984-87 (see figure 4 and appendix A for country breakdowns). Moscow's willingness to provide more trade credits—some 100-300 million rubles higher in 1986 and 1987 than the 1985 level of 360 million rubles—helped soften the decline. Unlike the large swings in price subsidies and trade credits, economic development aid to Havana has remained fairly constant in ruble terms during much of the 1980s, averaging about 400 million rubles during the period 1983-87.

Other CLDCs collectively receive only about 40 percent of Soviet assistance, with Vietnam and Mongolia accounting for most of the total:

- The revised estimate of economic assistance to North Korea shows that the above-world-market price for oil Moscow charged P'yongyang in 1987 outweighed the small amount of economic aid it provided, indicating that the overall relationship worked to Moscow's favor.<sup>7</sup>

<sup>7</sup>The inclusion of some military trade with North Korea in Soviet-reported trade statistics makes our assistance estimate for that country less reliable than our estimates for the other CLDCs.

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- Increases in Soviet economic aid—both project assistance and trade credits—to Vietnam outweighed the decrease in price subsidies, making overall economic assistance levels to Vietnam higher in 1987 than in 1984.

- Mongolia, Cambodia, and Laos all received less assistance in ruble terms in 1987 than in the recent past, although the declines were not dramatic [ ]

Despite Moscow's rhetoric about the excessive costs of supporting client states and the fact that net assistance has fallen, it has yet to cut actual resource flows:

- Oil price subsidies now work to Moscow's favor, but the actual quantities of oil either delivered to or sold on behalf of the CLDCs remain roughly the same—about 350,000 barrels per day, or 3 percent of Soviet production.
- Although much of the windfall has been erased since 1985, Moscow's willingness to accept goods in exchange for oil, as well as to extend trade credits, still presents the CLDCs with a more attractive arrangement than turning to hard currency markets for energy.

Finally, economic aid—both developmental and trade credits—has increased nearly 20 percent in ruble terms since 1984, although growth essentially stopped in 1986. [ ]

Moscow's patience is growing thin, however, and it is likely to look harder for ways to cut assistance costs. With Soviet oil production costs skyrocketing, Moscow is demanding that CLDCs make better use of the oil currently delivered and develop alternative energy sources. Indeed, much of the recent increase in direct economic aid is accounted for by Soviet efforts to ultimately limit the CLDCs' dependence on Soviet oil—such as construction of the Cuban nuclear power plant and development of Vietnam's offshore oilfields. Moreover, Moscow is pressing CLDCs to restructure their economics and to develop the capability to earn additional hard currency. At a time when the Soviets are confronted with serious domestic economic problems, CLDCs probably will find that they have reached the bottom of Moscow's pockets. [ ]

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## Appendix

Soviet Net Economic Assistance to the  
Communist LDCs <sup>a</sup>

Million rubles

	1980	1981	1982	1983	1984	1985	1986	1987
<b>Total</b>	<b>3,403</b>	<b>4,588</b>	<b>5,030</b>	<b>5,223</b>	<b>5,759</b>	<b>5,800</b>	<b>4,318</b>	<b>4,297</b>
Economic aid	1,492	2,252	2,173	2,776	2,617	2,808	3,224	3,106
Development aid	882	850	1,031	1,067	1,107	1,266	1,285	1,377
Other trade credits	493	1,265	1,005	1,564	1,352	1,382	1,799	1,595
Technical services	84	101	101	109	117	118	104	102
Grants	32	36	36	37	41	42	35	32
Price subsidies	1,911	2,337	2,857	2,447	3,142	2,992	1,094	1,191
<b>Cuba</b>								
<b>Total</b>	<b>2,048</b>	<b>2,988</b>	<b>3,457</b>	<b>3,630</b>	<b>4,097</b>	<b>3,825</b>	<b>2,601</b>	<b>2,549</b>
Economic aid	530	914	694	1,209	963	799	1,123	934
Development aid	352	326	323	386	398	394	374	411
Other trade credits	139	552	335	781	521	362	708	478
Technical services	39	36	36	42	44	43	41	45
Price subsidies	1,518	2,074	2,763	2,421	3,134	3,026	1,478	1,615
Sugar	758	999	1,907	1,997	2,884	3,039	2,730	2,586
Oil	754	983	753	323	171	-115	-1,359	-1,038
Nickel	6	92	103	101	79	102	107	67
<b>Vietnam</b>								
<b>Total</b>	<b>607</b>	<b>806</b>	<b>725</b>	<b>770</b>	<b>846</b>	<b>966</b>	<b>933</b>	<b>997</b>
Economic aid	377	647	688	759	846	983	1,113	1,215
Development aid	116	102	136	168	185	259	297	387
Other trade credits	183	455	462	499	559	620	728	749
Technical services	45	54	54	56	61	63	53	47
Grants	32	36	36	37	41	42	35	32
Oil subsidies	231	158	36	11	0	-17	-180	-218
<b>Mongolia</b>								
<b>Total</b>	<b>542</b>	<b>597</b>	<b>641</b>	<b>656</b>	<b>638</b>	<b>765</b>	<b>637</b>	<b>627</b>
Economic aid	500	550	627	652	638	774	738	748
Development aid	358	362	480	463	462	500	496	504
Other trade credits	142	178	136	178	164	262	232	235
Technical services	0	11	11	11	12	13	11	9
Oil subsidies	42	47	14	4	0	-9	-101	-121

Footnote at end of table.

**Soviet Net Economic Assistance to the  
Communist LDCs (continued)***Million Rubles*

	1980	1981	1982	1983	1984	1985	1986	1987
<b>North Korea</b>								
<b>Total</b>	<b>169</b>	<b>104</b>	<b>94</b>	<b>30</b>	<b>45</b>	<b>78</b>	<b>4</b>	<b>-21</b>
Economic aid	49	47	51	19	37	86	87	39
Development aid	49	47	51	19	37	86	87	39
Oil subsidies	120	58	43	11	8	-8	-83	-60
<b>Cambodia</b>								
<b>Total</b>	<b>0</b>	<b>58</b>	<b>51</b>	<b>64</b>	<b>71</b>	<b>82</b>	<b>90</b>	<b>85</b>
Economic aid	0	58	51	64	71	82	105	101
Development aid	0	0	19	9	10	9	15	18
Other trade credits	0	58	32	55	61	73	90	83
Oil subsidies	0	NA	NA	NA	NA	NA	-15	-16
<b>Laos</b>								
<b>Total</b>	<b>37</b>	<b>35</b>	<b>62</b>	<b>74</b>	<b>63</b>	<b>84</b>	<b>52</b>	<b>60</b>
Economic aid	37	35	62	74	63	84	57	69
Development aid	7	13	22	22	15	18	16	18
Other trade credits	30	22	40	52	48	66	41	51
Oil subsidies	NA	NA	NA	NA	NA	NA	-5	-9

<sup>a</sup> Because of rounding, components may not add to the total shown.

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